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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Inquiry into Policies and Programs to Assure Universal Telephone Service in a Competitive Market Environment	)	RM-8388

COMMENTS OF SPRINT CORPORATION

Sprint Corporation hereby comments on the Petition of MFS Communications Company, Inc. for a Notice of Inquiry and En Banc Hearing in the above-captioned proceeding.

The MFS petition: (1) asks the Commission to open an inquiry to create a general policy for subsidies to provide universal service support; (2) advocates replacing the current system of broad, ill-defined subsidies with targeted subsidies to specific end-users paid by all telecommunications providers; and (3) advocates a "pay or play" subsidy mechanism where market participants can either pay the subsidy or provide subsidized service.

Sprint believes that the Commission should open an inquiry to comprehensively examine pricing and cost recovery for universal service and establish a generic policy regarding support for universal service. Like MFS, Sprint believes that subsidies ought to be targeted to individuals and companies that need subsidies rather than provide general untargeted financial support. While there are people and telephone providers that legitimately need financial support, Sprint believes that in an

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increasingly competitive environment it is inappropriate to maintain a system of financial support that indiscriminately subsidizes companies and individuals without regard to need.

As discussed below, geographic averaging of access prices is responsible for at least some of the mismatch between costs and revenues that now exists. Thus, while the inquiry is pending, Sprint recommends that the Commission proceed to reduce this mismatch by promptly implementing density zone pricing.

Sprint recommends that a notice of inquiry should include consideration of at least the following issues:

1. Which customers and/or firms should be subsidized, and how much subsidy is needed to promote universal service?

2. Which services or individuals presently receive subsidies and which services generate subsidies? A number of local telecommunications services generate revenues in excess of their economic costs, indicating their potential to serve a source of subsidy. For example, the RBOCs collected a little over $2 billion in interstate CCLC in 1992,[1] which was approximately 25% of their interstate switched access revenues. At least some portion of the Residual Interconnection Charge (RIC) can be considered a subsidy. Other explicit subsidies in interstate access would include the Universal Service Fund (approximately $700 million) and Lifeline Assistance (approximately $100 million). There are also implicit subsidies such as rate averaging that are difficult to quantify. It is far from clear whether these excess revenues are used as subsidies and, to the extent they are, which services are the beneficiaries of these subsidies.

3. What implications do excess revenues and financial support have in the increasingly competitive, rapidly changing long distance

[1] TRP, 1993 Annual Access Filings.

telecommunications industry? For example, a bill recently introduced in Congress (H.R. 3626, 103d Congress, 1st Sess. (Nov. 22, 1993, "Brooks-Dingell bill")) would create a mechanism by which the interLATA restriction from the Modified Final Judgment ("MFJ") could be eliminated. If the Brooks-Dingell bill or any similar MFJ relief legislation passes and untargeted excess revenues remain in access charges, then interLATA long distance carriers would be funding an entitlement program to guarantee the RBOCs' recovery of their existing revenue requirements. Thus, the present long distance industry would find itself in the position of subsidizing its newest interLATA competitors. This would be a particularly anticompetitive result given the fact that IXCs have no practical alternative but to buy access from the RBOCs for the vast bulk of their traffic.[2]

4. If subsidies (or revenues in excess of costs) are replaced, reduced or eliminated by Commission policies, how will that affect local exchange carriers' revenues, and what remedies are appropriate?

The subsidies in interstate access and other prices are huge. Only a small fraction of the subsidies in access are targeted based on need of the recipient -- low income in the case of Lifeline Assistance and high cost in the case of the Universal Service Fund. The remainder are untargeted amounts that may subsidize other LEC services (competitive and non-competitive) or LEC shareholders and employees. This means two things: First

[2]At present, the LECs still receive nearly all of every IXC access dollar. While the Commission's recent interconnection decisions in CC Docket No. 91-141 may provide IXCs with a competitive alternative -- the CAPs -- for entrance facilities and interoffice transport in large metropolitan areas, CAP competition is far from ubiquitous, and even in large metropolitan areas is unlikely to present an effective alternative for local switching and the local loop for years to come.

that LECs are competing in access markets with prices that inflated with considerable subsidies, and second that long distance carriers today are forced to pay -- nearly all of the time -- access prices that cover costs they do not cause.

Ultimately, competition in the provision of access services will be the most effective means of driving these excess revenues out of telecommunications prices and assure that access rates do not reflect monopoly-induced inefficiencies. Until that occurs, however, the Commission should take steps to move prices -- especially prices for non-competitive services -- closer to economic costs. Sprint agrees with MFS that the subsidies that are built into telecommunications prices are unfair to non-cost-causers, distort the market by requiring subsidy-paying firms to subsidize their competitors, create disincentives for firms to minimize costs, and create incentives for uneconomic entry. Indeed, the competitive issues that the Commission wrestled with in the restructure of local transport charges would have been simpler if local transport charges were not inflated by untargeted subsidies designed to provide "contribution" to the LECs. Sprint encourages the Commission to embrace pro-competitive policies that drive untargeted excess revenues out of telecommunications prices.

Sprint believes that an inquiry into the definition and funding of any necessary universal service subsidies is an important and necessary task as competition begins to emerge in local markets. While the "pay or play" proposal outlined by MFS in Attachment 1 to its petition, and the draft NetTrans proposal being developed by Professor Noam, which MFS also refers to (at 20-21), are commendable for their innovation, and should certainly be the subject of further analysis and comment in the inquiry proceeding, neither of these specific proposals may be the optimal solution. Thus, the inquiry should consider not only these two specific proposals, but any other proposal for fashioning a more targeted approach to universal service subsidies and to a recovery of those subsidies that is equitable to all segments of the telecommunications industry.

Nor should the Commission focus only on targeting universal service subsidies as such. Rather, the Commission should undertake (by itself and, where appropriate, in conjunction with a Federal-State Joint Board) to review and reform existing access and separations rules, in order to assure that costs are assigned to cost-causative services and jurisdictions. This effort would reduce the untargeted interservice contribution flows that exist today and make access charges more reflective of underlying costs.

In the meantime, while the inquiry proceeding is underway, Sprint urges full and immediate implementation of density zone pricing for interstate access services. In their February 1, 1993 comments in response to the Commission's Further Notice of Proposed Rulemaking in CC Docket No. 91-213, BellSouth (at 37-43), Pacific Bell (at 37-40), and Southwestern Bell (at 35-48) argued that much of the local transport residual interconnection charge was a reflection of the fact that the special access rates used to compute the facility charges under the Commission's new transport rate structure were essentially reflective of the costs of more dense service regions and failed to reflect the actual facilities expense associated with less dense areas. Sprint believes there may be considerable merit in that argument, not only for local transport, but for other access elements as well. To the extent that BellSouth, Pacific and Southwestern Bell are correct, prompt implementation of density zone pricing could well reveal that much of the apparent "excess revenues" that exist today are really intraservice contribution flows -- subsidies -- between high-density and low-density areas. Full implementation of density zone pricing, accordingly, could simplify the other tasks facing the Commission by substantially reducing the amount of apparent subsidy or excess revenue that would otherwise need to be addressed by the Commission and by state regulators.

Respectfully submitted,

SPRINT CORPORATION

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Comments" of Sprint Corporation were sent via first-class mail, postage prepaid, on this the 16th day of December, 1993, to the below-listed party:

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